



## The Lifetime Income Summit

May 20, 2010 • Washington Hilton • Washington, DC

*Public and Private Innovations to Effectively Manage Income in Retirement*

### FOR IMMEDIATE RELEASE

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## KEY FINDINGS RELEASED FROM LIFETIME INCOME SUMMIT

AARP, ASPAA and WISER hosted the Lifetime Income Summit on May 20, 2010 to examine public policy and investment innovations aimed at better management of retirement income. The Summit attracted the nation's leading policy analysts, policymakers, financial industry leaders, and insurance industry leaders to take part in the discussion.

Enclosed is a summary of the main points made at the Summit:

- There is considerable agreement that a much stronger focus on the spend-down phase of retirement planning is needed.
- Social Security will continue to be the key source of annuitized wealth for most workers. However, many middle- to high-income workers would benefit from additional longevity insurance and guaranteed streams of income.
- A new survey by AARP suggests that workers nearing retirement are more interested in lifetime income options than conventional wisdom suggests – at least in theory.
  - About a third of older workers who have an annuity option in their defined contribution plan say they plan to annuitize all or part of their plan balance.
  - About half of defined contribution plan participants who are not offered an annuity would like to have this option.
  - Many older workers say that they are interested in innovations such as partial annuitization, trial annuitization or in-service annuities.
  - These finding suggests that if options for obtaining lifetime income were more flexible and readily available, interest and take-up would grow.
  - However, there is also substantial confusion about annuity options. Nearly half of older plan participants stated that they were not very familiar with annuities, and half of older workers with defined contribution plans did not know whether their plan offered an annuity option.
- Encouraging the use of lifetime income options for “decumulation” of assets presents unique challenges. Fiduciary liability is perceived as a key barrier to employer adoption of lifetime income options. Some participants suggested that a safe harbor (or “decumulation QDIA”) is needed, however creating a safe harbor without inappropriately influencing the market or exposing





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employees to unintended consequences will be challenging. A safe harbor might be accomplished by a clearinghouse of certified lifetime income products and providers. A review of the security provided by state guarantee funds and reconsideration of how information about these guarantees can be provided to sponsors and individuals would also be helpful. Diversification of assets by choosing several annuity providers rather than a single issuer also mitigates risk.

- Another barrier is lack of credible consumer information, particularly about the stream of income that their assets can provide. Information needs to be framed correctly for consumers to make wise choices. For example, plan sponsors and consumers need comparable “apples to apples” information about the stream of income and other features of various lifetime income options.
- Decumulation options need to be more customized than accumulation options, making it difficult to create a default lifetime income option. The current default for 401(k) plans and IRAs—the lump sum payment—is clearly not right for everyone.
- Offering partial annuitization options is particularly promising. Experience with the federal Thrift Savings Plan and elsewhere suggests that partial options increase take-up of annuities. It’s not clear why employers who offer a choice between lump-sum and annuity options often do not allow participants to combine them.
- There is substantial private market innovation going on that should be encouraged with oversight. Two important product developments are the in-service annuity, a potential in-plan option that avoids both sticker shock and interest rate risk; and a variable annuity with a guaranteed minimum withdrawal benefit, essentially a mutual fund with a minimum income guarantee.
- Trial annuities are also promising, and may be useful in helping new retirees create “a paycheck budget.” Deferred annuities are cost effective, and allow the retiree to spend more in the deferred phase knowing that the risk of living into very old age is protected.
- Successful product innovations will likely be those that are easy to understand and provide clear value to employees, provide longevity insurance, can be obtained through payroll deduction and are priced at the institutional level.

We should first provide information and remove barriers to adoption of appropriate lifetime income solutions. After that, we should consider whether additional incentives are needed. Participants generally agreed that tax incentives or mandates are less preferable policy options.

Visit the Lifetime Income Summit website to review the agenda, download presentations and listen to a recording of the event. [www.lifetimeincomesummit.org](http://www.lifetimeincomesummit.org)

Follow-up interviews from Lifetime Income Summit are available—contact information listed below:

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## **About AARP**

AARP is a nonprofit, nonpartisan membership organization that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. AARP does not endorse candidates for public office or make contributions to either political campaigns or candidates. We produce AARP The Magazine, the definitive voice for 50+ Americans and the world's largest-circulation magazine with over 35.7 million readers; AARP Bulletin, the go-to news source for AARP's millions of members and Americans 50+; AARP VIVA, the only bilingual U.S. publication dedicated exclusively to the 50+ Hispanic community; and our website, AARP.org. AARP Foundation is an affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. [www.aarp.org](http://www.aarp.org) **Media Contact:** Mary Liz Burns or Alejandra Owens (202)434-2560

## **About ASPPA**

The American Society of Pension Professionals & Actuaries (ASPPA) is a national organization of more than 7,000 retirement plan and benefits professionals that serves as the educator, voice, and advocate for the employer-based retirement system. ASPPA members are administrators, actuaries, advisors, attorneys, accountants, and other financial services professionals who provide consulting and administrative services for qualified retirement plans. [www.asppa.org](http://www.asppa.org) **Media Contact:** Melinda Semadeni (703) 516-9300

## **About the Women's Institute for a Secure Retirement**

WISER is a nonprofit organization that helps women, educators and policymakers understand the important issues surrounding women's retirement income. WISER works to provide low- and moderate-income women with basic financial information aimed at helping them take financial control over their lives and to increase awareness of the structural barriers that prevent women's adequate participation in the nation's retirement systems. Learn more at [www.wiserwomen.org](http://www.wiserwomen.org). **Media Contact:** Lara Hinz (202) 393-5452

